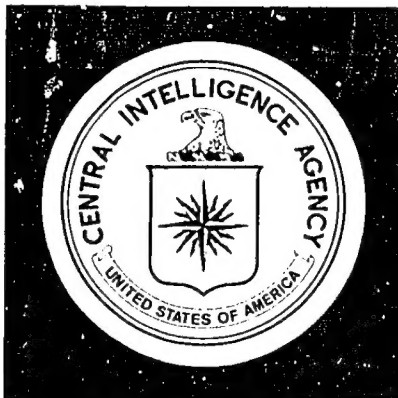


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DIRECTORATE OF
INTELLIGENCE

WEEKLY SUMMARY

Special Report

Czechoslovakia: Five Years Later

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CZECHOSLOVAKIA: FIVE YEARS LATER



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Summary

In the five years since the Soviet invasion in August 1968, Czechoslovakia's Communist Party General Secretary Gustav Husak has achieved political normalization and economic stability, placated the Czechoslovak consumer, and pursued a pattern of foreign relations imposed by the Soviets. Husak has kept control by firmly dealing with overt political problems without reverting to the administrative and police tactics prevalent during the early Novotny era.

Economic policies have revolved around maintaining central control of the economy while increasing the supply of consumer goods. Meanwhile, the pattern of economic activity remains substantially unchanged from the Novotny era, and the old problems of poor worker discipline, poor management, and inefficiency continue. The next Five Year Plan (1976-1980) should bring a few minor changes, reflecting Husak's emerging confidence in his ability to control the domestic situation.

For now, the only major initiatives—under the watchful eye of the Soviets—will be in improving relations with some Western powers, particularly the US. Prompted by Soviet movements toward detente, Husak has been seeking accords with West Germany, Austria, and the US. Moreover, Czechoslovak trade with the West is increasing rapidly.

Political "Normalization"

August 20 marked the fifth anniversary of the Soviet-led invasion that terminated Czechoslovakia's experiment with "socialism with a human face." Although the Prague regime continues to be plagued by the consequences of these events, it has regained, under the leadership of Gustav Husak, a degree of political stability and is displaying a budding self-confidence. There are signs that it may be ready to relax some of the more stringent policies instituted during the forced return to orthodoxy.

When Husak took over in March 1969, he faced a faltering economy and a thoroughly disordered society. A supporter of the reforms during the "Prague Spring," Husak as general secretary adopted a policy of "realism," i.e., broad compliance with Moscow's demands in the face of Soviet military intervention and the palpable threat of violent repression. Although most Czechoslovaks looked with distaste on his oppor-

tunistic willingness to do what Moscow wanted, they were generally agreed that he was the best man all around in a difficult situation.

Husak, in doing Moscow's bidding, did manage to inject a degree of restraint into the "normalization" process, but as time went on the bulk of Dubcek's reforms were dismantled: censorship was reinstituted, the party's control over all segments of the government and society was restored, freedom of travel to the West was sharply curtailed, and the various special interest groups that had sprung up under Dubcek were either disbanded or reoriented to serve the purposes of the party. Moreover, the party was subjected to a massive purge. Of the 1.7 million party members when Husak came in, some 300,000 were stricken from the rolls and another 200,000 resigned in disgust. In the end, the individuals who were in the forefront of the Dubcek reform movement were removed from positions of power and ostracized. Dubcek, for example, runs a motor pool for the Slovak forestry administration—a non-job.

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Alexander Dubcek...

Nevertheless, the Husak "normalization" never included the administrative and police practices prevalent during the early days of Novotny. Husak, himself a victim of a purge of so-called Slovak "bourgeois nationalists" in the early 1950s, successfully opposed putting the reformers on trial. His success in deflecting the more severe reprisals advocated by the party's ultra-conservatives, however, has led to squabbling among the leadership. The question of how to deal with the leading figures of the reform era remains a major point of contention five years after the events of 1968. While one faction apparently feels that the time has come to use selectively the talents of the Dubcek reformers in economic affairs and cultural efforts, the ultra-conservatives continue to voice paranoid concern over the continued danger posed by these "rightist opportunists."

Husak seems to favor a policy of "differentiation." He would separate the ex-reformers into an irredeemable "hard core" responsible for the events of 1968, and "honest Communists" who were merely duped and who can return to the mainstream of Czechoslovak life by recanting. Although most of the country's technocrats appear to have reached a *modus vivendi* with the regime, most creative artists and other intellectuals have resisted all the regime's blandishments

and have boycotted the party-controlled cultural organizations. As a result, the country has become a cultural wasteland. Within the party, Husak has repeatedly counseled patience in dealing with the intellectuals, and since early this year there have been some signs of a new and less oppressive cultural policy.

Husak has taken a well-publicized interest in popular welfare, and is continually reminding the people that they "never had it so good." Indeed, he has taken steps to raise the standard of living. More and better consumer goods are available, and for the most part, the populace has responded by grudgingly granting qualified acceptance to the Husak regime.

Even more important, Husak has been accepted by the Soviets. Soviet party chief Brezhnev made it clear during his visit to Prague last February that Husak had passed the performance test, ending speculation that his stewardship over the party would be temporary and that he would be replaced by a more reliable conservative.

In spite of all this, the Czechoslovak regime's claims to "normalization"—i.e., that the "Prague Spring" has been obliterated—are a sham. The leaders, the people, and Moscow recognize this. Internal repression, though hidden behind an aura



...Replaced by Husak

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of material prosperity, is harsher than it was in 1967, and leaders of the reform are in exile, in jail, or at least out of the way. Neither their erstwhile supporters nor their opponents who are now in power can forget the impact of the reformers. Indeed, current policies are what they are in large part because the reformers once held sway and because they continue to influence, even if negatively, the thinking of the leadership.

The Domestic Economy

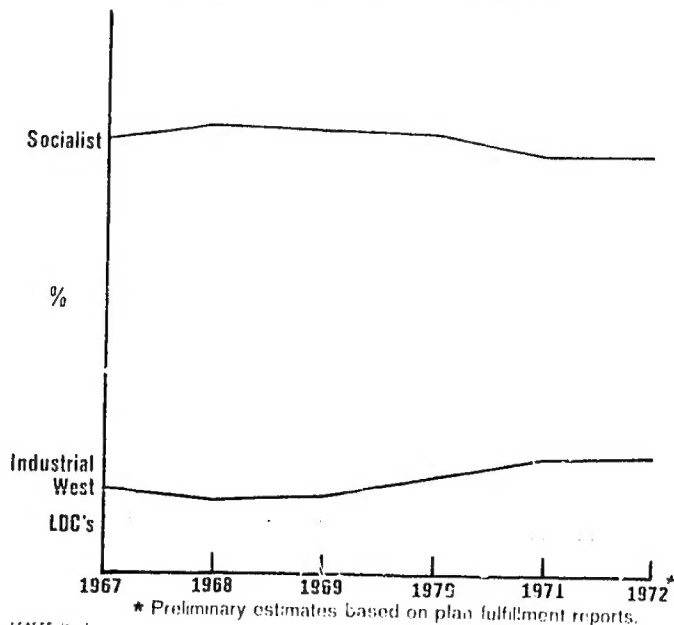
Husak has successfully carried out two major economic tasks he set for himself—placing the economy under stronger central control and increasing the supply of consumer goods. The leadership does seem to be debating the introduction of some mild reforms during the Sixth Five Year Plan (1976-1980).

Stability, not change, has been the watchword. Husak's first act was to strengthen control over planning and direction in the economy. Inflationary pressures forced him to raise retail prices, halt planned wage increases and cut back

new investment projects. Inflation was brought under control by the end of 1970. At this point he unveiled a new Five Year Plan (1971-75), and it turned out to be the most cautious of any CEMA country—and the most closely attuned to Soviet desires. The plan basically called for a renewed stress on heavy industry, closer cooperation with the USSR and other Communist countries, and increased attention to the immediate needs of the Czech consumer.

A number of significant steps have been taken in pursuit of improved consumer welfare. The Czech diet, already one of the best in Eastern Europe, has been steadily improved through increased output of milk and meat and imports of previously scarce fruits and vegetables. The supply of consumer durables has steadily increased, and while still far short of Western standards, Czechoslovakia is the only East European country that has no waiting list to buy a car. In 1972, when the domestic supply of consumer goods was threatened by a spending spree by East German tourists, Prague acted quickly, placing strict quotas on purchases by the tourists. Finally,

**Consumer Imports: % Share
From Major World Trading Blocs**



Czechoslovak shopper

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"We are thinking over...our domestic and foreign relationships...to ensure that the 15th Congress can determine the economic, political, and other tasks of the next period.... Such an approach is necessary to ensure that the stabilization process which we have achieved in the past two years can continue and that the advantage of socialism, which our people feel today, will not be a transitory period but a lasting prospect."

Gustav Husak, 4 July 1973

Husak's regime has greatly stepped up the pace of housing construction since the beginning of the plan period.

Although Czech national income and industrial production are growing at about 6 percent a year, a number of old problems remain. The labor supply is very tight, and various sources suggest that labor-management problems are growing. Construction and production costs are increasing faster than planned, largely because of poor worker discipline and unsound management. Many industrial facilities are antiquated and lag far behind the Western counterparts.

Various sources have reported that reforms in wages, prices, and managerial techniques are being debated. For one thing, the Czechs are paying a good deal of attention to the New Economic Mechanism in Hungary. Within the past year, every major Czech economic periodical has discussed one or another aspect of the Hungarian reforms. The Czech Central Committee recently approved a new system for top-level managers. An experimental wage system, tying wages to productivity, is being tried in a few industries. Heavily backed by Premier Strougal, this system is likely to be introduced more generally in the next Five Year Plan. The political rationale for such economic reforms in Czechoslovakia would presumably be that similar reforms were approved by the 13th Party Congress in 1966 and that "revisionists" like Ota Sik deviated from the guidelines. In any case, really sweeping changes are not likely,



Brezhnev and Husak

and any reform that is enacted will be kept under strong party control.

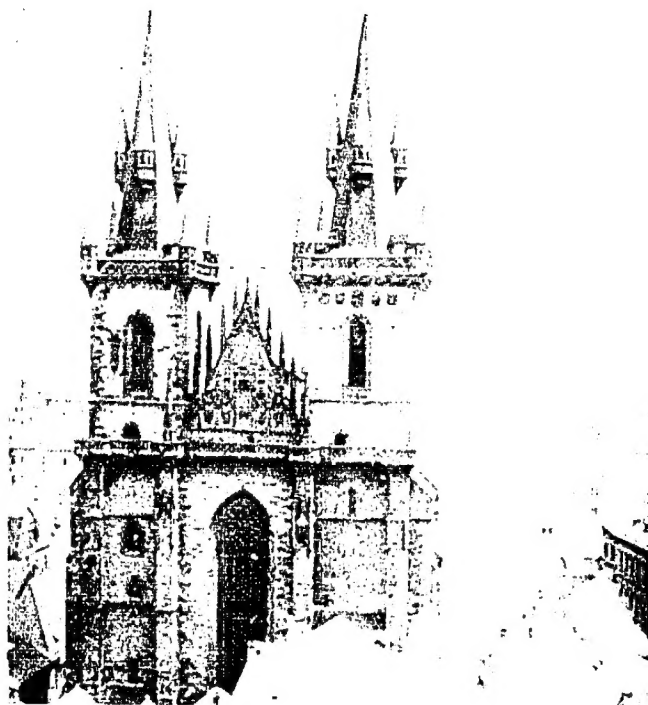
Foreign Policy

During the first three years of its existence, the Husak regime focused its attention on bringing order to the domestic situation. Its foreign policy during the period was characterized by total subordination to Moscow. As Prague gained acceptance from the invaders, its relations with Yugoslavia and Romania deteriorated over the issue of the invasion and Husak's domestic policies. Relations with the Western countries became strained as Husak moved to cut off the free travel of Czechoslovak citizens to the West, and as his hard domestic policies came under growing Western criticism.

During the past year, as the regime gained self-confidence and Moscow elaborated its policy of detente, Prague has moved out of its isolation and won some successes. The most important was the negotiation of a bilateral treaty with West Germany. The agreement was made possible when Prague abandoned its demand that Bonn declare the 1938 Munich Agreement invalid "from the beginning" (*ab initio*). This demand had been a basic tenet of Czechoslovak foreign policy for over 30 years, and Husak's retreat has been attributed to Soviet prodding in the interest of Brezhnev's detente policy. Problems have arisen at the last moment over the question of Bonn's representing West Berlin; these will almost

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Cathedral in Prague

certainly delay Chancellor Brandt's visit to Prague scheduled for the first week of September. Despite the delay, both sides seem intent on overcoming this impediment. The treaty and the Brandt visit will open the way for diplomatic relations and will be welcomed by the Husak regime as a further recognition of its legitimacy.

The Husak regime has buried the hatchet with Romania. The improvement in relations was underlined by Romanian President Ceausescu's visit to Prague earlier this year. Normalization of relations with Yugoslavia is progressing more slowly, but relations have tangibly improved. Husak will travel to Belgrade in October.

Some progress has also been scored in negotiations with the Vatican. For the first time since the Communist coup in 1948, Prague has permitted the appointment this spring of bishops to fill vacant seats. Husak has not neglected neighboring Austria, and Prague has moved to work out long-standing financial claims and periodically troublesome border problems.

Although Prague has become more active in the field of foreign relations in the past year, its activities in the field will clearly remain circumscribed by its loyalty to the Soviet Union. Indeed, Czechoslovakia is the loudest proponent of a "co-ordinated socialist foreign policy." The Husak regime, however, will do what it can to utilize the openings created by the Soviet policy of detente to seek further recognition of its legitimacy.

On the other hand, the potentially corrosive impact of detente will perhaps be felt more in Prague than elsewhere in Eastern Europe. After all, Moscow's rationale for the 1968 invasion was to counter the danger stemming from Dubcek's inability to resist the alleged subversive influence of Western ideas. Husak inherited this rationale, but it now looks as if he may have to contend with much the same Western influence as a matter of course, treading a tightrope between the impact the west will have on popular expectations and the demands of Soviet-imposed discipline. His success in this is by no means a foregone conclusion.

US-Czech Relations

A major development in Prague's foreign policy has been the new momentum given its relations with Washington by the recent visit of

US-Czechoslovak Negotiating Issues

- The US holds about \$70 million in Czech gold (18.4 tons) pending compensation for \$72 million of US property in Czechoslovakia seized after World War II.
- The US has blocked withdrawal of \$1.7 million in Czech accounts, and the Czechs have defaulted on a bond issue valued at \$2.7 million.
- Czechoslovakia seeks return of \$17 million paid for a steel mill never delivered by the US.
- The Czechs want most-favored-nation trade treatment and a Czech consulate in Chicago in exchange for a US consulate in Bratislava.

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Secretary of State Rogers to Prague. On 10 September, the US and Czechoslovakia will begin talks aimed at settling outstanding financial claims, one of the major roadblocks to improved bilateral relations.

Indications are that the Czechs, for the first time since the 1968 invasion, are interested in making progress on these matters and will probably propose a new financial settlement package. A Foreign Ministry official, in relaying the latest Czech position, indicated willingness to pay \$29 million of \$72 million in US property claims if the US makes good on the \$17-million steel mill. If the US agrees to this and returns gold being held in Fort Knox, the official noted that the Czechs might spend the dollar value of the gold for US technology.

Foreign Trade Policy

Prague's policy on foreign trade, like its foreign policy in general, is careful and centered on the Communist world, particularly the Soviet Union. Compared with the rest of Eastern Europe, Czechoslovakia has not been aggressive in seeking Western industrial products and technology. While trade with the West is increasing substantially this year—due in part to sizable agricultural purchases from the US—there is no sign that Czechoslovakia plans to follow Poland and Romania in making large purchases of Western machinery on credit.

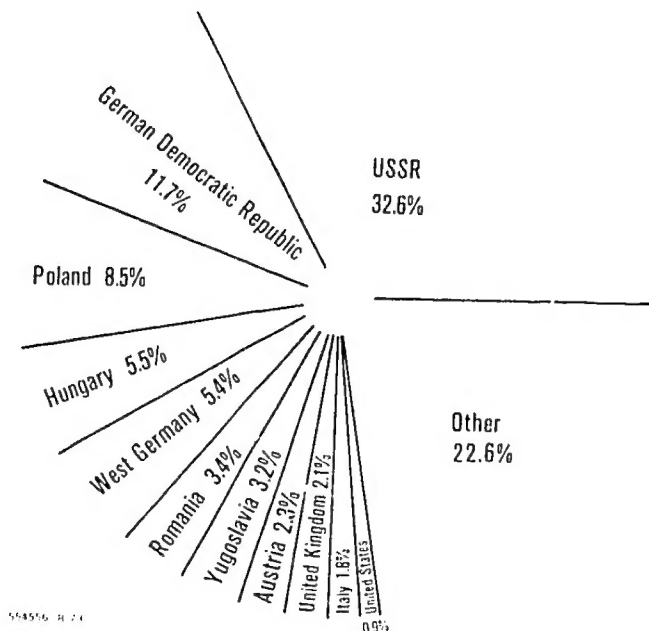
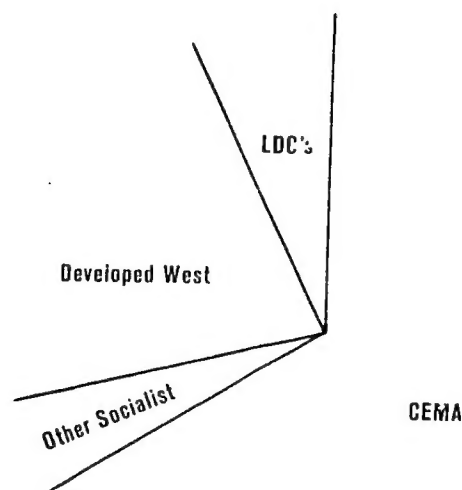
The Czech economy, since the end of World War II, has been organized to meet the needs of the Soviet Union and CEMA. Most machinery and equipment plants set up since the late 1950s, for example, are geared for export to Czechoslovakia's socialist neighbors. The Czechs have lost their comparative advantage within the group. Products equal to the Czechs' in quality are being produced in other socialist nations, no longer guaranteeing a market for Czech machinery, which had long enjoyed the reputation of being the best in Eastern Europe. Moscow is growing unhappy with Czech industrial goods, and Prague has begun to feel the consequences. For example, a plant designed to produce locomotives for the Soviet Union is operating at only 20 percent of its capacity because the Soviets find that the Czech



Czechoslovak-Soviet Friendship Chemical Works

locomotive no longer meets their needs. On the other hand, the Czechs have felt the impact of last year's Soviet economic setbacks. The setbacks led to lower Soviet exports, quickening Czech concern that future Soviet difficulties may carry even larger costs for the Czech economy.

The Husak regime is the strongest supporter of integration within CEMA and has been openly critical of the slow progress being made toward this goal. Deputy Premier Hamouz described the regime as "dissatisfied" with the slow pace of cooperative ventures. Prague had hoped that major projects in industrial cooperation—at least in specific areas such as automobile production—could be started by 1976. The Czechs are now pessimistic. Joint auto production with East Germany and Hungary has now been put off until at least 1980.

SECRET**Selected Major Trading Partners-1972****1972 Regional Breakdown of Foreign Trade****Trade with Non-Socialist Countries**

Trade with non-socialist countries is increasing faster this year than in any year since Husak took control. In the first six months of the year exports to the "capitalist" nations were up 14.4 percent, and imports were up 20.5 percent. These advances were above planned levels and outran increases in trade with the socialist countries. The increase in imports has mainly come in the form of agricultural products, consumer goods, and raw materials—not machinery. Midyear figures show that Czechoslovakia continues to rely on the socialist countries for machinery imports.

Unlike Poland and Romania, the Czechs have shown little interest in obtaining long-term Western credits. The only sizable borrowing Czechoslovakia has done this year was a \$48-million credit from the Japanese Export-Import Bank for a petrochemical plant. Several major Western bankers recently in Prague have noted that Czechoslovakia would seem to be a "prime lending prospect," but the bankers believe that the Czechs will continue a pay-as-you-go policy. Licenses have been more important than credits in recent years, although the Czechs say only 2 percent of total production can be accounted for by licensing arrangements.

Czechoslovakia must import most of its raw materials. The Soviet Union has been the main source of these imports since World War II, but sizable increases in the future are doubtful even with additional Czech investment in Soviet raw material production. As a result, the Czechs have had to look elsewhere; to the Middle East for oil and cotton; to the developing countries—particularly Brazil and India—for ores; and to the US for agricultural products. The share of raw material imports from non-socialist countries will surely increase. A Czech economist recently wrote that priority will be given in granting credits to developing countries that repay in raw materials, particularly oil.

Good Prospects for Trade with the US

Last year, Czech-US trade reached \$89 million, an increase of 61 percent over the previous

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Imports of Consumer Goods
1967=100

	Total Imports	From Socialist Nations	From Industrial West
1967	100.0	100.0	100.0
1968	147.8	152.7	130.4
1969	180.0	183.7	166.9
1970	185.5	187.0	219.4
1971	177.4	170.9	249.6
1972	195.1*	187.8*	282.0*

*Preliminary estimates based on plan fulfillment reports.

year. Czech exports to the US were \$26 million, 13 percent higher than 1971, and imports reached \$63 million, double the 1971 figure. All signs point toward further increases this year. The Czechs have placed orders for \$100 million worth of US goods so far this year, about 80 percent of which have been for agricultural products, mostly soybeans.

In 1971, only 24 percent of Czech imports from the US were manufactured products and machinery. The Czechs, however, have been cautiously seeking access to US technology. Major

US trade missions have been well-received in Prague, and interest was shown in US machine tools, as well as automotive and petrochemical technology. In addition, US bids are now being solicited for several turnkey plants already incorporated in the next Five Year Plan. The Czechs' conservative attitude toward credits will restrict their shopping list, but the recent Husak moves to diversify trade with the West and to reduce trade with West Germany could mean more business for other nations, particularly the United States.

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